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WESCO FINANCIAL CORP
Form 10-Q
May 14, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Quarterly period ended March 31, 2001 or

Transition report pursuant to section 13 or 15(d) of the
Securities Exchange Act of 1934

For the transition period from _____ to _____.

Commission file number 1-4720

WESCO FINANCIAL CORPORATION

(Exact name of Registrant as Specified in its Charter)

DELAWARE

95-2109453

(State or Other Jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

301 East Colorado Boulevard, Suite 300, Pasadena, California 91101-1901

(Address of Principal Executives Offices)
(Zip Code)

626/585-6700

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [] No []

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 7,119,807 as of May 2, 2001.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The condensed consolidated financial statements of Wesco Financial Corporation, listed in the accompanying index, are incorporated as an integral part of this report.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

See pages 10 through 14.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits -- None

(b) Reports on Form 8-K - None

SIGNATURES

Pursuant to the requirements of the securities exchange act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESCO FINANCIAL CORPORATION

Date: May 11, 2001

By: /s/ JEFFREY L. JACOBSON

Jeffrey L. Jacobson
Vice President and Chief Financial
Officer (principal financial officer)

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WESCO FINANCIAL CORPORATION
 FINANCIAL STATEMENTS FILED WITH FORM 10-Q
 FOR QUARTER ENDED MARCH 31, 2001

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WESCO FINANCIAL CORPORATION
 CONDENSED CONSOLIDATED STATEMENT OF
 INCOME AND RETAINED EARNINGS
 (Dollar amounts in thousands except for amounts per share)
 (Unaudited)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, 2001 | March 31, 2000 |
| | ----- | ----- |
| Revenues: | | |
| Sales and service revenues | \$ 120,531 | \$ 64,087 |
| Insurance premiums earned | 8,677 | 4,511 |
| Dividend and interest income | 19,855 | 11,997 |
| Realized net securities gains | -- | 183,405 |
| Other | 788 | 748 |
| | ----- | ----- |
| | 149,851 | 264,748 |
| | ----- | ----- |
| Costs and expenses: | | |
| Cost of products and services sold | 39,452 | 26,231 |
| Insurance losses, loss adjustment and underwriting expenses .. | 7,179 | 4,246 |
| Selling, general and administrative expenses | 69,200 | 30,139 |
| Interest expense | 1,266 | 652 |

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| | | |
|--|--------------|------------|
| Goodwill amortization | 1,831 | 957 |
| | ----- | ----- |
| | 118,928 | 62,225 |
| | ----- | ----- |
| Income before income taxes | 30,923 | 202,523 |
| Provision for income taxes | (11,106) | (69,811) |
| | ----- | ----- |
| Net income | 19,817 | 132,712 |
| Retained earnings -- beginning of period | 1,466,126 | 552,343 |
| Cash dividends declared and paid | (2,242) | (2,172) |
| | ----- | ----- |
| Retained earnings -- end of period | \$ 1,483,701 | \$ 682,883 |
| | ===== | ===== |
| Amounts per capital share based on 7,119,807 shares outstanding throughout each period: | | |
| Net income | \$ 2.78 | \$ 18.64 |
| | ===== | ===== |
| Cash dividends | \$.315 | \$.305 |
| | ===== | ===== |

See notes beginning on page 7.

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WESCO FINANCIAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollar amounts in thousands)
(Unaudited)

| | March 31, 2001 | Dec. 31, 2000 |
|--|-------------------|------------------|
| | ----- | ----- |
| ASSETS | | |
| Cash and cash equivalents | \$ 391,393 | \$ 153,810 |
| Investments: | | |
| Securities with fixed maturities | 636,677 | 839,683 |
| Marketable equity securities | 655,681 | 833,937 |
| Rental furniture | 251,156 | 244,847 |
| Goodwill of acquired businesses | 268,264 | 260,037 |
| Other assets | 136,372 | 128,601 |
| | ----- | ----- |
| | \$2,339,543 | \$2,460,915 |
| | ===== | ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

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| | | |
|---|-------------|-------------|
| Insurance losses and loss adjustment expenses | \$ 43,026 | \$ 39,959 |
| Deferred furniture rental income and security deposits .. | 29,087 | 27,669 |
| Notes payable | 95,535 | 56,035 |
| Income taxes payable, principally deferred | 233,681 | 305,175 |
| Other liabilities | 57,001 | 55,043 |
| | ----- | ----- |
| Total liabilities | 458,330 | 483,881 |
| | ----- | ----- |
| Shareholders" equity: | | |
| Capital stock and capital in excess of par value | 30,439 | 30,439 |
| Unrealized appreciation of investments, net of taxes .. | 367,073 | 480,469 |
| Retained earnings | 1,483,701 | 1,466,126 |
| | ----- | ----- |
| Total shareholders" equity | 1,881,213 | 1,977,034 |
| | ----- | ----- |
| | \$2,339,543 | \$2,460,915 |
| | ===== | ===== |

See notes beginning on page 7.

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WESCO FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 31, 2001 | March 31, 2000 |
| | ----- | ----- |
| Cash flows from operating activities, net | \$ 35,907 | \$ 12,500 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Maturities of investments | 208,838 | 2,500 |
| Sales of investments | -- | 484,500 |
| Purchases of investments | (2,044) | (55,800) |
| Acquisition of business, net of cash and cash equivalents acquired .. | (16,470) | (380,400) |
| Purchases of rental furniture | (24,852) | (9,300) |
| Other, net | (1,054) | (3,300) |
| | ----- | ----- |
| Net cash flows from investing activities | 164,418 | 38,000 |
| | ----- | ----- |

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| | | |
|--|------------|----------|
| Cash flows from financing activities: | | |
| Net borrowings (repayments) of notes | 39,500 | (5,7 |
| Payment of cash dividends | (2,242) | (2,1 |
| | ----- | ----- |
| Net cash flows from financing activities | 37,258 | (7,8 |
| | ----- | ----- |
| Increase in cash and cash equivalents | 237,583 | 42,7 |
| Cash and cash equivalents -- beginning of period | 153,810 | 66,3 |
| | ----- | ----- |
| Cash and cash equivalents -- end of period | \$ 391,393 | \$ 109,0 |
| | ===== | ===== |
| Supplementary information: | | |
| Interest paid during period | \$ 1,161 | \$ 1,3 |
| Income taxes paid, net, during period | 21,394 | 18,5 |
| | ===== | ===== |

See notes beginning on page 7.

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WESCO FINANCIAL CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Dollar amounts in thousands except for amounts per share)
 (Unaudited)

Note 1

The condensed consolidated financial statements include the accounts of Wesco Financial Corporation ("Wesco") and its subsidiaries, including CORT Business Services, Inc. ("CORT"), acquired in the first quarter of 2000 (see Note 3). In the opinion of management, all adjustments necessary to a fair statement of the results of operations of Wesco and its subsidiaries (consisting only of normal recurring accruals) are reflected in the condensed consolidated financial statements.

Note 2

Reference is made to the following financial information deemed generally applicable to the condensed consolidated financial statements: (1) the notes to Wesco's consolidated financial statements appearing on pages 34 through 41 of its 2000 Form 10-K Annual Report, and (2) the audited consolidated financial statements of CORT, attached as Exhibit 99 to Wesco's Form 8-K/A filed April 28, 2000.

Note 3

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In late February 2000, a wholly owned subsidiary of Wesco acquired all of the outstanding common stock of CORT pursuant to a tender offer and merger. The acquisition has been accounted for as a purchase, with CORT's accounts included in the condensed consolidated financial statements as of the date of acquisition.

The following unaudited table presents pro forma consolidated operating data for Wesco and its subsidiaries for the quarter ended March 31, 2000 as if CORT had been acquired on January 1, 2000. It reflects (1) elimination of estimated income that would have been earned during the period on investments liquidated in 2000 to fund most of the purchase had been liquidated on January 1, 2000, (2) inclusion of interest expense throughout the period as if line-of-credit borrowings to fund a portion of the purchase had been made at the beginning of the year, and (3) amortization of the excess of purchase price over fair value of identified net assets acquired (goodwill) over 40 years beginning January 1, 2000.

| | Three Months Ended March 31, 2000 ----- |
|---------------------------------|---|
| Sales and service revenues..... | \$114,314 |
| Total revenues..... | 309,458 |
| Net income..... | 133,755 |
| Per capital share..... | 18.79 ===== |

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Note 4

Following is a summary of securities with fixed maturities:

| | March 31, 2001 ----- | | December 31, 2000 ----- | |
|-------------------------------|-------------------------|--------------------------------------|----------------------------|--------------------------------------|
| | Amortized Cost | Quoted Market (Carrying) Value | Amortized Cost | Quoted Market (Carrying) Value |
| | ----- | ----- | ----- | ----- |
| Mortgage-backed securities .. | \$588,312 | \$603,936 | \$635,173 | \$647,210 |
| Other | 32,697 | 32,741 | 192,495 | 192,473 |
| | ----- | ----- | ----- | ----- |
| | \$621,009 | \$636,677 | \$827,668 | \$839,683 |
| | ===== | ===== | ===== | ===== |

Following is a summary of marketable equity securities (all common stocks):

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| | March 31, 2001 | | December 31, 2000 | |
|-----------------------------|----------------|--------------------------------------|-------------------|--------------------------------------|
| | Cost | Quoted Market (Carrying) Value | Cost | Quoted Market (Carrying) Value |
| The Coca-Cola Company | \$ 40,761 | \$325,405 | \$ 40,761 | \$439,095 |
| The Gillette Company | 40,000 | 199,488 | 40,000 | 231,200 |
| Other | 27,020 | 130,788 | 27,020 | 163,642 |
| | ----- | ----- | ----- | ----- |
| | \$107,781 | \$655,681 | \$107,781 | \$833,937 |
| | ===== | ===== | ===== | ===== |

Note 5

The following table sets forth Wesco's consolidated comprehensive income (loss) for the three-month periods ended March 31, 2001 and 2000:

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, 2001 | March 31, 2000 |
| Net income | \$ 19,817 | \$ 132,712 |
| Decrease in unrealized appreciation of investments, net of income tax effect of \$61,286 and \$62,311 ... | (113,396) | (115,538) |
| Reversal of unrealized appreciation upon inclusion of realized net gains in net income | -- | (119,213) |
| | ----- | ----- |
| Comprehensive loss | \$ (93,579) | \$ (102,039) |
| | ===== | ===== |

Note 6

Following is condensed consolidated financial information for Wesco, broken down by business segment, including a furniture rental segment created in 2000 by the acquisition of CORT (see Note 3):

| | Three Months Ended | |
|-------------------------------|--------------------|-------------------|
| | March 31, 2001 | March 31, 2000 |
| Insurance segment: | | |
| Revenues | \$ 28,280 | \$ 16,373 |
| Net income | 14,279 | 9,407 |
| Assets at end of period | 1,672,162 | 2,026,077 |
| | ===== | ===== |

| | | |
|---|------------|------------|
| Furniture rental segment: | | |
| Revenues | \$ 105,958 | \$ 46,050 |
| Net income | 6,775 | 4,197 |
| Assets at end of period | 347,564 | 305,041 |
| | ===== | ===== |
| Industrial segment: | | |
| Revenues | \$ 14,578 | \$ 18,074 |
| Net income | 283 | 707 |
| Assets at end of period | 22,828 | 28,078 |
| | ===== | ===== |
| Goodwill of acquired businesses: | | |
| Amortization, net of income taxes | \$ (1,677) | \$ (914) |
| Assets at end of period | 268,264 | 262,878 |
| | ===== | ===== |
| Realized net securities gains: | | |
| Before taxes (included in revenues) | \$ -- | \$ 183,405 |
| After taxes (included net income) | -- | 119,212 |
| | ===== | ===== |
| Other items unrelated to business segments: | | |
| Revenues | \$ 1,035 | \$ 846 |
| Net income | 157 | 103 |
| Assets at end of period | 28,725 | 24,171 |
| | ===== | ===== |
| Consolidated totals: | | |
| Revenues | \$ 149,851 | \$ 264,748 |
| Net income | 19,817 | 132,712 |
| Assets at end of period | 2,339,543 | 2,646,245 |
| | ===== | ===== |

WESCO FINANCIAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to management's discussion and analysis of Wesco's consolidated financial condition and results of operations appearing on pages 18 through 26 of its 2000 Form 10-K Annual Report and to Exhibit 99 to Wesco's Form 8-K/A filed April 28, 2000 for information deemed generally appropriate to an understanding of the accompanying condensed consolidated financial statements. The information set forth in the following paragraphs updates such discussion.

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FINANCIAL CONDITION

Wesco's shareholders' equity at March 31, 2001 was approximately \$1.9 billion (\$264 per share). Of this amount, 20% represented unrealized appreciation of securities, which could differ substantially from gains ultimately realized. Wesco's management continues to believe that the Wesco group has adequate liquidity and financial strength to minimize any downturn in its fortunes.

RESULTS OF OPERATIONS

The following summary sets forth the contribution to Wesco's consolidated net income of each business segment -- insurance, furniture rental and industrial -- as well as activities not considered related to such segments. Realized net securities gains and goodwill amortization are excluded from segment activities, consistent with the way Wesco's management views the business operations. (Amounts are in thousands, all after income tax effect.)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, 2001 | March 31, 2000 |
| Insurance segment | \$ 14,279 | \$ 9,407 |
| Furniture rental segment | 6,775 | 4,197 |
| Industrial segment | 283 | 707 |
| Unrelated to business segment operations - | | |
| Goodwill amortization | (1,677) | (914) |
| Other nonsegment items | 157 | 103 |
| | 19,817 | 13,500 |
| Income before realized securities gains .. | 19,817 | 13,500 |
| Realized net securities gains | -- | 119,212 |
| | \$ 19,817 | \$ 132,712 |
| Consolidated net income | | |

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Insurance Segment

The insurance segment comprises Wesco-Financial Insurance Company ("Wes-FIC") and The Kansas Bankers Surety Company ("KBS"). Following is a summary of the results of segment operations, which represent essentially the combination of underwriting results with dividend and interest income (in thousands):

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, 2001 | March 31, 2000 |

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| | | |
|------------------------------------|-----------|----------|
| Premiums written | \$ 10,632 | \$ 7,040 |
| | ===== | ===== |
| Premiums earned | \$ 8,677 | \$ 4,511 |
| | ===== | ===== |
| Underwriting gain | \$ 1,498 | \$ 264 |
| Dividend and interest income | 19,603 | 11,862 |
| | ----- | ----- |
| Income before income taxes | 21,101 | 12,126 |
| Income tax provision | (6,822) | (2,719) |
| | ----- | ----- |
| Segment net income | \$ 14,279 | \$ 9,407 |
| | ===== | ===== |

Premiums written for the first quarters of 2001 and 2000 included \$5.7 million and \$2.7 million attributed to Wes-FIC. The remainder in each quarter was attributable to KBS. The increase in Wes-FIC's premiums written for the first quarter of 2001 was attributed principally to its ongoing participation in a three-year arrangement for reinsurance of certain property and casualty exposure ceded by a large, unaffiliated insurer.

Earned premiums for the first quarters of 2001 and 2000 included \$4.5 million and \$.5 million attributable to Wes-FIC. The balance for each period was attributed to KBS. The increase in Wes-FIC's earned premiums for the current period related mainly to the reinsurance participation described in the preceding paragraph.

The underwriting gains reported for the quarters ended March 31, 2001 and 2000 were attributable to the profitable underwriting results of KBS. The improvement in underwriting gain for the first quarter of 2001 from the comparable prior year figure resulted mainly from a decrease in losses incurred by KBS. KBS's reinsurance program was restructured effective January 1, 1998 in an effort to improve operating results over the long term in return for greater short-term volatility.

The income tax provision of the insurance segment generally fluctuates somewhat as a percentage of its pre-tax income mainly due to fluctuations in the relationship of substantially tax-exempt components of income to total pre-tax income.

Furniture Rental Segment

The furniture rental segment consists of CORT Business Services Corporation ("CORT"), which was acquired in late February 2000 (see Note 3 to the accompanying condensed consolidated financial statements). Following is a summary of CORT's operating results for the quarter ended March 31, 2001. For comparison, we also present (1) unaudited data for the entire quarter ended March 31, 2000, excluding items not classified as segment-related by Wesco -- goodwill amortization, securities gains or losses, and income tax provisions or benefits related thereto, and (2) data included in Wesco's consolidated results from

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| | Three Months Ended | | Late |
|----------------------------------|--------------------|-------------------|----------------------------------|
| | March 31, 2001 | March 31, 2000 | February to March 31, 2000 |
| Revenues: | | | |
| Furniture rentals | \$ 88,895 | \$ 81,052 | \$ 38,443 |
| Furniture sales | 17,063 | 15,224 | 7,607 |
| | ----- | ----- | ----- |
| Total revenues | \$ 105,958 | \$ 96,276 | \$ 46,050 |
| | ===== | ===== | ===== |
| Income before income taxes | \$ 10,976 | \$ 13,637 | \$ 6,684 |
| Income tax provision | (4,201) | (5,353) | (2,487) |
| | ----- | ----- | ----- |
| Segment net income | \$ 6,775 | \$ 8,284 | \$ 4,197 |
| | ===== | ===== | ===== |

CORT's revenues for the first quarter of 2001 increased \$9.7 million, or 10.1%, over those reported for the comparable 2000 period. Rental revenues before the impact of acquisitions, trade show operations and a significant, short-term contract with the U. S. Bureau of the Census, increased approximately 11%. CORT's management attributes this increase in core rental revenues to the combination of growth in the number of furniture leases outstanding and an increase in average revenue per lease. CORT has noted, however, that the rate of growth of new orders is continuing to decline, reflecting changing economic conditions. Furniture sales revenues increased approximately 12.1% for the current quarter as a result of CORT's ongoing efforts to maintain the quality of its rental furniture.

Income before income taxes for the quarter has decreased to 10.4% of revenue in 2001 compared to 14.1% of revenue in 2000. This decrease was due mainly to rising expenses associated with employee compensation.

Industrial Segment

Following is a summary of the results of operations of the industrial segment, consisting of the businesses of Precision Steel Warehouse, Inc. and its subsidiaries (in thousands):

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, 2001 | March 31, 2000 |
| Revenues, principally sales and services | \$ 14,578 | \$ 18,074 |
| | ===== | ===== |
| Income before income taxes | \$ 468 | \$ 1,175 |
| Income tax provision | (185) | (468) |
| | ----- | ----- |
| Segment net income | \$ 283 | \$ 707 |
| | ===== | ===== |

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Revenues of Precision Steel's businesses for the first quarter of 2001 decreased \$3.5 million, or approximately 19 percent, from those reported for the first quarter of 2000. Pounds of steel products sold decreased about 26 percent. Precision Steel's management attributes the decline in sales volume principally to a slowdown in the manufacturing sector of the economy coupled with increasing competitive pressures above the extremely competitive pressures already existing at the end of 2000.

Income before income taxes and net income of the industrial segment are dependent not only on revenues, but also on operating expenses and the cost of products sold. The latter, as a percentage of revenues, amounted to 81.1% for the first quarter of 2001 versus 80.2% for the comparable period last year. The cost percentage typically fluctuates slightly from period to period as a result of changes in

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product mix and price competition at all levels.

Unrelated to Business Segment Operations

Set forth below is a summary of items increasing (decreasing) Wesco's consolidated net income that are viewed by management as unrelated to the operations of the insurance, furniture rental and industrial segments (in thousands):

| | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, 2001 | March 31, 2000 |
| Goodwill amortization, before income tax effect | \$ (1,831) | \$ (957) |
| Income tax benefit | 154 | 43 |
| | ----- | ----- |
| Goodwill amortization | \$ (1,677) | \$ (914) |
| | ----- | ----- |
| Realized net securities gains, before income tax effect .. | \$ -- | \$183,405 |
| Income tax provision | -- | (64,193) |
| | ----- | ----- |
| Realized net securities gains | \$ -- | \$119,212 |
| | ----- | ----- |
| Other non-segment items, net, before income tax effect ... | \$ 211 | \$ 131 |
| Income tax (provision) benefit | (54) | (28) |
| | ----- | ----- |
| | ----- | ----- |
| | \$ 157 | \$ 103 |
| | ----- | ----- |

The increase in first quarter amortization of goodwill was due principally to the inclusion of a full three months' amortization of CORT goodwill in 2001, versus less than two months' in 2000; CORT was acquired in late February 2000. Goodwill amortization for 2001 also reflects the effects of

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acquisitions made by CORT following its purchase by Wesco.

Realized gains and losses on the Wesco group's investments have fluctuated in amount from period to period, sometimes impacting net income significantly. However, the amounts and timing of these realizations have no predictive or practical analytical value.

Although there were no realized securities gains or losses in the first quarter of 2001, Wesco's consolidated earnings for the first three months of 2000 included realized net gains of \$119.2 million, after income taxes. The gains reported for 2000, although material in relation to Wesco's quarterly earnings, had only a minor impact on its shareholders' equity: Wesco's investments are carried at market value, and most of the gains had already been reflected in the unrealized appreciation component of shareholders' equity in prior accounting periods.

Other non-segment items comprise mainly rental income from owned commercial real estate and dividend and interest income from investments owned outside the insurance segment, reduced by interest and other expenses.

* * * * *

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Wesco's effective consolidated income tax rate typically fluctuates from period to period for various reasons, such as the inclusion in consolidated revenues of significant, varying amounts of dividend income, which is substantially exempt from income taxes. The respective income tax provisions, expressed as percentages of income before income taxes, amounted to 35.9% and 34.5% for the quarters ended March 31, 2001 and March 31, 2000.

Consolidated revenues, expenses and net income reported for any period are not necessarily indicative of future revenues, expenses and net income in that they are subject to significant variations in amount and timing of securities gains and losses and the possible occurrence of other unusual nonoperating items such as the acquisition of CORT in February 2000 (see Note 3 to the accompanying condensed consolidated financial statements). In addition, consolidated revenues, expenses and net income from operations are expected to be much more volatile than they were prior to Wes-FIC's entry into the super-catastrophe reinsurance business and, to a lesser degree, the restructuring of KBS's reinsurance program in 1998.

Shareholders' equity is impacted not only to the extent that unusual items affect earnings, but also to reflect changes in unrealized appreciation of investments, which are not reflected in net income.

FORWARD-LOOKING STATEMENTS

Certain written or oral representations of management stated herein or elsewhere constitute "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995, as contrasted with statements of historical fact. Forward-looking statements include statements which are predictive in nature, or which depend upon or refer to future events or conditions, or which include words such as expects, anticipates, intends, plans, believes, estimates, may, or could, or which involve hypothetical events. Forward-looking statements are based on information currently available and are subject to various risks and uncertainties that could cause actual events or

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results to differ materially from those characterized as being likely or possible to occur.

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WESCO FINANCIAL CORPORATION
301 EAST COLORADO BLVD., SUITE 300
PASADENA, CALIFORNIA 91101-1901

May 11, 2001

Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, DC 20549

Re: File No. 1-4720

Gentlemen:

Enclosed is an electronic version of our Form 10-Q for the quarter ended March 31, 2001.

Very truly yours,

WESCO FINANCIAL CORPORATION

Jeffrey L. Jacobson
Vice President and
Chief Financial Officer